

WEEKLY MARKET OUTLOOK

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It's Not Stagflation

The U.S. is not currently experiencing stagflation, and it's not going to over the next couple of years. The debate about stagflation is going to intensify over the next few months as growth in consumer prices continues to accelerate. However, there are a ton of temporary factors behind the acceleration and recent gains in the CPI are concentrated in the most volatile components. This is likely not sustainable; it is attributable to the reopening of the economy.

Still, a stagflation debate will occur, and there won't be a consensus. Some define stagflation as weaker growth and accelerating inflation. The weaker-than-expected job growth in April and string of disappointing economic data coupled with the April CPI have some believing their criteria for stagflation has been met.

However, we believe this definition is too loose. Periods of stagflation occur when there is high unemployment and high inflation. Inflation isn't high. We calculated z-scores—a measure of the standard deviations above or below the mean—for the headline and core CPI, and they are the highest since oil prices jumped in 2008. The z-score is at the top end of the range seen between 1991 to 2008 but well below that seen in the 1970s and 1980s.

Another way to assess stagflation is using the misery index, which was invented by economist Arthur Okun in the 1970s as a way of expressing his frustration at the two main economic problems of the day: high unemployment and high inflation, or stagflation. The misery index was 10.3 in April, among the highest since 2011, but that wasn't stagflation then and it's not now. Based on our forecast for inflation and unemployment, the misery index will steadily decline over the next few years.

Things can change, but we don't believe stagflation is in the economy's near future. Stagflation in the 1970s occurred because the economy was juiced-up by the Vietnam

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Credit Markets Review and Outlook

War and Great Society spending, the job market tightened, wage growth accelerated, and businesses jacked up prices. This was the genesis of the runaway inflation of the 1970s and early 1980s, which was exacerbated by Arab oil embargoes and spiking oil prices, and the Federal Reserve's initial mishandling of the accelerating inflation.

Nowhere Near Stagflation

U.S. Misery Index



Sources: BLS, Moody's Analytics

The role of inflation expectations wasn't well understood then, and the Fed didn't realize expectations were becoming unanchored. Fed officials were more worried about the negative fallout of the higher oil price on the economy's growth than the impact on inflation and expectations. It kept interest rates too low for much too long. The slow growth and high inflation of stagflation set in, and that period ended poorly.

The Fed decided it had no choice but to crush the high inflation and inflation expectations by pushing interest rates into the double digits and causing the economy to suffer the severe double-dip recessions of the early 1980s. That draconian policy worked. A decade later, inflation had been contained, but the economic cost was great. We are still paying for it in the skewed income and wealth distribution.

The Fed has learned its lesson and it has all the tools to address this period if transitory inflation proves to be something else. The risks of stagflation are low.

Some softening in issuance

U.S. investment-grade issuance came in lighter than expected in April, and May isn't shaping up to be much better. Worldwide investment-grade corporate bond issuance totaled \$213 billion in April, compared with the \$447 billion last April. U.S. dollar-denominated investment-grade bond issuance was \$135 billion in April. This would be down 41% relative to 2020. However, it wasn't going to duplicate the torrid pace set last year, but the good news is that issuance remains in line with that seen in 2018 and 2019.

So far, investment-grade corporate bond issuance in May has totaled \$66 billion. The pipeline for the rest of the month suggests that total issuance for the month should be close to that seen pre-pandemic. With April issuance and a fairly good reading on May's, the expected total IG issuance for this year is now tracking \$1.28 trillion.

April was another strong month for high-yield issuance, as it totaled \$60 billion, stronger than the issuance seen last April. In fact, compared with its average over the past five Aprils, issuance this April was 45% larger. Year-to-date high-yield issuance is \$298 billion. This puts high-yield issuance on track to be just south of \$700 billion this year.

High-yield corporate bond issuance has largely been earmarked to refinance existing debt at lower rates. With the substantial amount of refinancing, the high-yield market feels less risky than it has in the past as default risk is lower. This also has some economic benefits. The share of nonfinancial corporate debt has grown from around 40% of GDP in 2011 to more than 50% in 2021 and the risk of that debt, as measured by credit ratings, has increased. Firms that are more indebted will normally face higher interest rates as the economy recovers or if there is a stock market correction. This drag on hiring and investment could be less significant than in the past.

Risks to high-yield issuance are weighted to the downside. Market volatility could pick up in the second half of this year as the Fed's debate about tapering its monthly asset purchases begins and there is a possibility of a higher capital gains tax rate next year.

IG Corporate Bond Issuance (By Currency)

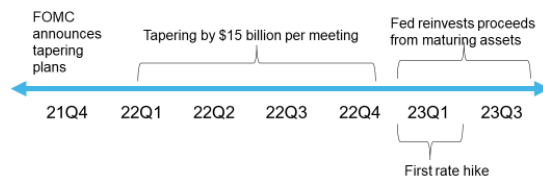
	Worldwide Investment-Grade Corporate Bond Issuance: \$ billions	US-Denominated: \$ billions	Euro-Denominated: \$ billions	Other-Currency-Denominated: \$ billions	US \$-Denominated Share of World Investment-Grade Corporate Bond Issuance: %	Euro-Denominated Share of World Investment-Grade Corporate Bond Issuance: %	Other-Currency-Denominated Share of World Investment-Grade Corporate Bond Issuance: %
Quarter:							
20Q1	827	546	241	39	66%	29%	5%
20Q2	1062	771	290	2	73%	27%	0%
20Q3	613	435	124	53	71%	20%	9%
20Q4	438	262	117	60	60%	27%	14%
21Q1	805	503	222	81	62%	28%	10%
% change yr ago:							
20Q2	27%	34%	12%	84%			
20Q3	-1%	1%	2%	-33%			
20Q4	-47%	-31%	-20%	-29%			
21Q1	-3%	-25%	8%	100%			
Month:							
Apr-20	447	302	108	37	68%	36%	35%
Apr-21	213	135	49	29	63%	36%	59%
% change yr ago:	-52%	-55%	-54%	-23%			

Sources: Dealogic, Moody's Analytics

We have updated our expected timeline for tapering. We still expect the Fed to announce its tapering plans in September and the \$15 billion reduction to occur at each Federal Open Market Committee meeting in 2022. The Fed has signaled that it wants tapering to be on autopilot.

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Timeline for Fed Tapering



Sources: Federal Reserve, Moody's Analytics

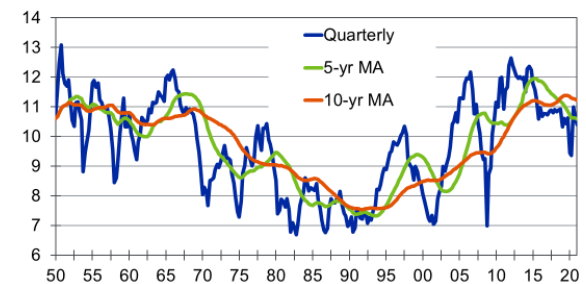
Once its monthly asset purchases have been reduced from \$120 billion to zero, the Fed will reinvest proceeds from maturing assets to ensure its balance sheet doesn't contract, which would be contractionary monetary policy.

No revision to GDP, corporate profit margins compress

Revisions to first quarter U.S. GDP were not eventful. First quarter GDP rose 6.4% at an annualized rate, identical to the government's advance estimate. However, we did get our first look at corporate profits in the first three months of the year and they were unchanged, compared with the fourth quarter of 2020.

Profit Margins Remain Solid

Pre-tax U.S. corporate profits, % of nominal GDP



Sources: BEA, Moody's Analytics

Corporate profits were 12.7% on a year-ago basis in the first quarter. Base effects boosted year-over-year growth in corporate profits in the first quarter and will continue to do so this quarter.

Pre-tax profits as a share of GDP, a proxy for corporate profit margins, slipped to 10.4% in the first quarter, which is roughly in line with that seen before the pandemic. Margins are slightly below their 5- and 10-year averages. Still, businesses have the ability to absorb some of the price pressures that have developed because of rising commodity prices and global supply-chain issues.

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TOP OF MIND

Deconstructing April's Disappointment

BY ADAM KAMINS

It has been nearly three weeks since its release, but the surprising April slowdown in [U.S. payroll growth](#) continues to reverberate. Concerns about soft spots in the recovery—particularly around labor shortages and the role of enhanced unemployment insurance—have moved to the fore.

While industry employment data provided some clues as to the culprits behind last month's disappointing numbers, the release of state and metro area figures provides a more detailed window. Among the key takeaways were a more disparate set of results across geographies than observed in many months, and the fact that certain characteristics, including a reliance on consumer industries and high vaccination rates, appear linked to stronger April results.

Not a uniform narrative

Zooming out a bit, a few trends stood out in last month's regional employment data. While not surprising, the state-level results served to confirm the national story. Occasionally a difference between the sum of states and the national figure can betray hints of a misleading top-line number, but combining all states actually yielded an even smaller net job gain than the national figure. This does not materially change the narrative, but in some ways that is the point, as state declines validated the weak U.S. performance.

A more interesting question, however, revolves around the distribution of those job losses. With the U.S. rate of job growth falling by almost two-thirds, question lingered around whether most states would fare similarly. The answer was a fairly emphatic no. In fact, nine states accelerated from March to April, while 17 experienced an outright decline in employment.

The divergent paths of state and metro area economies can be seen in the standard deviation of growth rates. A [declining trend across states](#) and metro areas was reversed, and this is made more obvious when controlling for the magnitude of changes in employment. Dividing by the average of the absolute value of all growth rates not only arrests a declining trend since early autumn, but reveals the most variation at any point since the pandemic took hold.

Regional Economies Diverged in April

Coefficient of variation* of payroll growth, %



In many ways, the April figures resemble the change that took place between December and January, and not just because of a similar top-line number. While the identities of the regions were different, in both cases there modest growth prevailed across most of the nation, with one area failing to pull its weight. Of course, the context was a bit different given that January's number represented an improvement over job losses in December, as opposed to April's unpleasant surprise.

Regional takeaways

Back in the winter, the story revolved around weakness in the West, particularly the Pacific division.

Renewed [COVID-19](#) lockdowns in California drove noticeable employment declines, pulling down the rest of the region. This, of course, came on the heels of Oregon and New Mexico being the first movers when it came to reinstating lockdowns late last year.

But in April, the West was actually the best-performing region. The Pacific Coast has been trending steadily in the right direction, and the Mountain division barely slowed at all, experiencing by far the smallest decline in its rate of job growth. This comes as something of a surprise given that it is the region that would appear to be most in danger of running into labor supply constraints, with Idaho and Utah the nation's only two states to exceed their pre-pandemic employment levels.

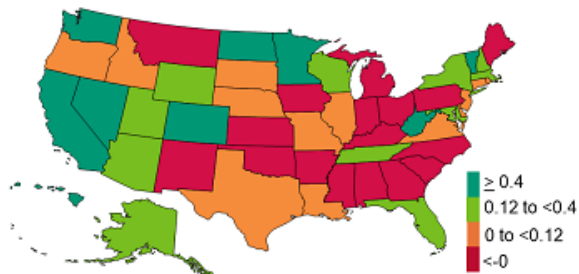
Slower job growth was evident in most of the rest of the nation, but to varying degrees. Job gains from March to April slowed to near zero in the Great Lakes and Mid-South, while losses occurred in the Great Plains and Oil Patch. Those four divisions fared by far the worst of any in the nation, signaling that the slowdown was driven

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primarily by a contiguous set of states that starts just west of the East Coast and extend all the way to the Rocky Mountains, with the Great Lakes and Southeast looking worst.

Great Lakes and Southeast Backtrack

Payroll employment, % change from Mar to Apr 2021



Sources: BLS, Moody's Analytics

Underperformance in this broad swath of the U.S. has many culprits, but two very different factors stand out. One is more flattering and revolves around the fact that the middle of the U.S. was generally not hit as hard as the coasts, giving it less room to grow in any given month. But other strong performers, including the Mountain West and Southeast, fared much better last month, indicating that there is more to the story. Part of that may involve the impact of a relatively low COVID-19 vaccination rate. Nowhere is this more problematic than along Gulf Coast States like Alabama and Mississippi, both of which experienced a payroll decline in April. In fact, Alabama's was the nation's steepest. With most of its neighbors faring similarly poorly, consumer industries struggled to gain much traction throughout the region. The Upper Midwest, meanwhile, struggled for a few reasons. Low vaccination rates are playing a major role in the Great Plains, especially in light of severe outbreaks during the fall. However, many Farm Belt states never fully shut down, signaling that a high starting point is also having some influence. Michigan, meanwhile, is a different story altogether, just now emerging from the nation's most severe spring outbreak, putting significant downward pressure on payrolls.

Areas of strength

Of course, given the wide gap between states that improved in April and those that backtracked, there was quite a bit of good news as well, especially for areas that have struggled most significantly through the pandemic.

The positive impact of rebounding leisure/hospitality payrolls was evident in two of the states that were hit hardest in the early days of the pandemic: Hawaii and Nevada. Both were among the best performers on a month-to-month basis in April, reflecting the gradual pickup in tourism. While both have a long way to go, especially with international and business travel largely shuttered, continued growth in domestic leisure travel bodes well for the months ahead.

Just as low vaccination rates may be holding back the Southeast, Hawaii has been helped by one of the highest in the U.S, moving it to the top of the list in April.

Vermont, the state with the greatest share of adults to receive at least one dose as of mid-May, also experienced unusually strong gains.

Washington DC, meanwhile, neared the top of the list last month. Its growth shines a light on the gradual comeback being experienced in cities due to lower starting points, high vaccinations, and the more recent shift toward reopening.

Bottom line

While April brought divergent fortunes across states and metro areas when it came to monthly growth rates, the fact that harder-hit states are rebounding more robustly signals convergence in terms of losses sustained since the beginning of the pandemic. States like Hawaii and Nevada are inching ever closer to their counterparts, and while normalcy remains a long way off, the gap appears poised to close slightly.

This is evident not just in monthly growth rates, but in the fact that long-struggling states generally fared better than average between February and March. As they enjoy above-average vaccination rates to go along with their lower starting point, there will be fewer obstacles along the path to a full recovery.

Other factors will also be at play in the months ahead. It remains premature to ascribe weakness in the most recent numbers to enhanced unemployment insurance benefits, but many states are nonetheless experimenting with changes. In fact, nearly half of all states now [plan to end the additional \\$300 per week](#) benefits provided by the American Rescue Plan in the weeks ahead. It seems doubtful that this will materially affect the trajectory of the labor market, but the resulting natural experiment could shed additional light on whether generous benefits for jobless Americans are keeping a lid on payroll growth.

The Week Ahead in the Global Economy

U.S.

The holiday shortened week is packed with key U.S. economic data, including the ISM surveys, vehicle sales, initial claims for unemployment insurance benefits and the May employment report. The employment report will be key in assessing whether April's soft job growth was a fluke or if labor supply constraints are more binding than previously thought. Generous unemployment insurance benefits are likely weighing on labor force growth, but there are other, more significant constraints, including worries about COVID-19 and childcare responsibilities. Still, some states have opted to ditch some federal unemployment insurance benefits. We are tracking this in our weekly U.S. COVID-19 tracker.

May job growth should be stronger than April's 266,000 net gain. We will wait for the ISM surveys and ADP National Employment Report before finalizing our forecast. The unemployment rate likely resumed falling. The Conference Board's labor market differential, or the difference between those saying jobs are plentiful versus hard to get, increased from 21.6 to 34.6. Though it's not perfect, the labor market differential tracks the unemployment rate, and the widening suggests the unemployment rate fell in May.

The ISM manufacturing survey has been strong recently, boosted in part by the supplier delivery index. Historically the ISM manufacturing survey doesn't spend too much time north of 60. If the ISM survey shows signs that some of the cyclical parts of the economy are moderating, it could put some pressure on high-yield corporate bond spreads.

Europe

The euro zone's preliminary Consumer Price Index for May will lead next week's highlights. We expect inflation will have jumped 2% y/y, building on the 1.6% rise recorded in April. By contrast, consumer prices in Russia likely rose 5.4% y/y in May, slightly less than April's 5.5% increase. Meanwhile, euro zone unemployment is expected to have held steady at 8.1% in April. Germany's unemployment is forecast to remain at 6% in May with Italy's unemployment likely edging up to 10.2% in April. These figures point to the continued effectiveness of Europe's furlough schemes, which have kept idle workers officially tied to their jobs. The prolongation of lockdown means monthly retail sales for the euro zone and Germany likely slowed in April to 1.2% and 2.8%, respectively. Also on the calendar is Italy's first quarter GDP release, which should show output fell 0.4%, and improvement from the 1.8% contraction in the previous quarter.

Asia-Pacific

China's manufacturing PMI survey likely cooled in May to 51, from April's 51.4 as pent-up demand has eased with demand at home and abroad returning to more normal levels. India's March-quarter GDP growth was likely flat in year-over-year terms, after the 0.4% expansion in the December quarter. India's latest surge in COVID-19 infections began late in March and will be a hefty blight on domestic demand in the June quarter, with early indicators including household spending showing stress. On the policy front, central banks in India and Australia are forecast to keep policy settings steady at their meetings next week. The RBI has introduced additional liquidity support in recent weeks to improve access to emergency health services, and has indicated a willingness to do more, if needed.

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Geopolitical Calendar

Date	Country	Event	Economic Importance	Financial Market Risk
Apr/May	ASEAN	ASEAN summit	Low	Low
May	Vietnam	Parliamentary elections	Low	Low
By June	Malaysia	Sarawak state elections	Low	Low
6-Jun	Mexico	Legislative elections	Low	Low
6-Jun	Peru	Presidential elections, second round	Medium	Medium
16-Jul	Japan	BOJ Monetary Policy meeting	Medium	Medium
23-Jul to 8-Aug	Japan	Summer Olympics, Tokyo	Medium	Low
5-Sep	Hong Kong	Legislative Council elections	Low	Medium
22-Oct	Japan	General elections	Medium	Medium
Oct/Nov	ASEAN	ASEAN summit	Low	Low
Nov	Asia-Pacific	Asia-Pacific Economic Cooperation forum	Medium	Low
Nov	G-20	G-20 Summit	Medium	Low
7-Nov	Nicaragua	Presidential, congressional elections	Low	Low
14-Nov	Argentina	Legislative elections	Medium	Low
21-Nov	Chile	Presidential elections	Low	Low
28-Nov	Honduras	Presidential, congressional, and municipal elections	Low	Low
13-Mar	Colombia	Congressional elections	Medium	Medium
29-May	Colombia	Presidential elections	Medium	Medium

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THE LONG VIEW: U.S.

April investment-grade issuance was lighter than expected; May doesn't look much better.

BY RYAN SWEET

CREDIT SPREADS

Moody's long-term average corporate bond yield is 96 basis points, down 2 bp from this time last week. This is below the yield's high of 153 bp over the past 12 months and a hair above its low of 95 bp. This spread may be no wider than 112 bp by year-end 2021.

The long-term investment grade corporate bond yield also fell 2 bp to 133 bp, a new low over the past 12 months and well below its recent high of 234 basis points.

The recent composite high-yield option adjusted bond spread of 335 bp approximates what is suggested by the accompanying long-term Baa industrial company bond yield spread of 133 bp but is wider than that implied the recent VIX of 16.8. The VIX has dropped over the past week.

DEFAULTS

According to the Moody's Credit Transition Model, the trailing 12-month global speculative-grade default rate will fall to 2.7% by the end of the year under our baseline scenario and then edge up to 2.8% by the end of April 2022. To derive default-rate forecasts, Moody's CTM uses inputs, including ratings and rating transitions, as well as assumed future paths of high-yield bond spreads and changes in unemployment rates. The Moody's Investors Service baseline scenario assumes that the U.S. high-yield spread will stay below its historical average of about 500 bp over the next four quarters, in the 329-bp to 456-bp range. There is also the assumption that the U.S. unemployment rate will decline from the April level of 6.1% to the range of 5.1% to 5.6% over the next year. The unemployment rate should fall more than anticipated.

Elsewhere, the trailing 12-month U.S. leveraged loan default rate closed at 5% in April, down from 6% in March. The loan default rate stood at 5.2% at this time last year.

U.S. CORPORATE BOND ISSUANCE

First-quarter 2020's worldwide offerings of corporate bonds revealed annual advances of 14% for IG and 19%

for high-yield, wherein US\$-denominated offerings increased 45% for IG and grew 12% for high yield.

Second-quarter 2020's worldwide offerings of corporate bonds revealed annual surges of 69% for IG and 32% for high-yield, wherein US\$-denominated offerings increased 142% for IG and grew 45% for high yield.

Third-quarter 2020's worldwide offerings of corporate bonds revealed an annual decline of 6% for IG and an annual advance of 44% for high-yield, wherein US\$-denominated offerings increased 12% for IG and soared upward 56% for high yield.

Fourth-quarter 2020's worldwide offerings of corporate bonds revealed an annual decline of 3% for IG and an annual advance of 8% for high-yield, wherein US\$-denominated offerings increased 16% for IG and 11% for high yield.

First-quarter 2021's worldwide offerings of corporate bonds revealed an annual decline of 4% for IG and an annual advance of 57% for high-yield, wherein US\$-denominated offerings sank 9% for IG and advanced 64% for high yield.

U.S. ECONOMIC OUTLOOK

We now expect real GDP to rise 6.8% this year, compared with the 6.4% in the April baseline. We have been consistently revising our forecast higher for GDP this year because of changes to our fiscal policy assumptions, but the adjustment in May reflects the advance estimate of first-quarter GDP. Real GDP rose 6.4% at an annualized rate in the first quarter.

The fiscal stimulus impact is evident all over first-quarter GDP. Real consumer spending jumped 11.3% at an annualized rate, compared with the 2.3% gain in the prior three months. This is among the largest increases since the 1960s. The strength in consumer spending isn't surprising because of the 61.3% annualized gain in disposable income in the first quarter. Disposable income got a big boost from government transfer payments, including Economic Impact Payments that boosted

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incomes by \$1.929 trillion at an annualized rate. Expanded unemployment programs also added \$275 billion at an annualized rate.

Inventories subtracted 2.8 percentage points from first-quarter GDP. Some of this is likely attributable to supply chain disruptions and the global semiconductor shortage. As this fades, businesses will need to replenish inventories, which should be a positive for manufacturing and GDP.

We cut our forecast for GDP growth in 2022 from 5.3% to 4.8%. Risks to the forecast are weighted to the upside because of the lack of inventory build this year. The global semiconductor shortage bit into inventories during the first quarter and will likely continue to do so through the remainder of this year. Inventories lend a downside risk to our forecast for GDP this year but are an upside for 2022 and 2023. There is the potential that supply issues become a big problem, particularly for autos. Autos industrial production is trailing sales. Therefore, inventories could continue to decline. We didn't make any changes to our forecast for the change in private inventories over the next few years, but this may require revisiting as lean inventories need to be replenished, and

that could add more to GDP growth next year than we currently anticipate.

The consensus has begun to catch up with our forecast for this year, but we remain higher. The Bloomberg consensus is for real GDP to rise 6.3% this year. The range of forecasts for GDP growth this year is 2.2% to 8%. Our May baseline also has GDP growth stronger than the consensus for next year. The median estimate is for GDP to rise 4% in 2022 and the range is from 2% to 6.1%.

There weren't any changes to our assumptions about monetary policy. The Fed is unlikely to announce its plans about tapering its monthly asset purchases until late this year. Actual tapering will likely occur in the first half of 2022. The Fed is still expected to raise the target range for the fed funds rate in the first quarter of 2023. The pace of tightening is identical to that in the April baseline, but risks are weighted toward a more gradual pace of tightening.

There were no significant changes to the forecast for the 10-year U.S. Treasury yield. The forecast is for the 10-year Treasury yield to end this year around 2% and just shy of 2.5% next year.

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THE LONG VIEW: EUROPE

Expectations Drive Italy Consumer Confidence

BY ROSS CIOFFI

Italy's consumer confidence index beat expectations and jumped to a reading of 110.6 in May from 102.3 in April. This is the highest reading it has been since the months before the pandemic. Although views on the current situation improved, most of the upward pressure in consumer morale is coming from future expectations. Social distancing may have eased considerably in May, but restrictions are still keeping the economy far from normal. Like elsewhere in Europe, this should change over the summer as governments ease measures further. The survey points to greater consumer spending as this happens. Households are less worried about unemployment and more confident about their current and future financial situations.

Business morale also improved during May thanks to softer health measures. The composite business confidence index rose to a reading of 106.7 from 97.9. Manufacturing confidence remains a strong spot as does the construction industry, which is benefiting from stimulus measures promoting renovations. The outlook in the services and retail sectors similarly brightened, but they remain skeptical about current conditions.

As with consumers, most of the gain is driven by better expectations rather than normal views of the current situation. This is an important point in the confidence surveys; we shouldn't read too much into the fact that the indicators are meeting or in some cases exceeding pre-pandemic levels. That said, the results from the May survey are a good sign for the Italian economy's prospects in coming months. Stronger confidence among consumers and firms will boost investment, hiring and spending.

In Germany, consumer confidence ticked up only marginally. The GfK consumer confidence index rose to -7 heading into June, from -8.6 in May. Although consumers' views on the economy and their income prospects improved, they were also less willing to make new purchases during the month. We don't think this dashes our expectation that consumers will rush back to shops once lockdowns are unwound. It more likely reflects the continuation of social distancing

measures in May, which kept many services and shops closed or operating at reduced capacity. Savings are high and income expectations are stabilizing, which together should motivate consumer spending on goods and services this summer.

More French seek jobs

The number of job seekers in France rose to 3.62 million in April from 3.56 million in March. The job market remained difficult to navigate during April, as the country tightened lockdown measures amid a third wave of COVID-19 infections. France's short-time work scheme is helping to keep unemployment low and limit the amount of job loss. Fortunately for France's workers, the scheme was extended until the end of the year. The outlook will also start improving in May as lockdowns were loosened during the month.

Headwinds persist, however, especially for jobs that depend on tourists. Although the EU is developing a green pass that would allow vaccinated tourists to travel within the EU, France tightened its border with the U.K. and countries have the final word on their border policy. France has banned nonessential travel from the U.K. and will require a weeklong quarantine for those who qualify to come. This move was in response to the current spread of the Indian variant in the U.K. The restriction may be reversed as more people on either side of the Channel are vaccinated, but for now, it looks like Brits may have to wait a few more months before visiting France.

Although many people are itching to travel again, the outlook for the sector across Europe is uncertain. To the extent countries gradually open up to tourists, restrictions will remain that dent tourist flows. For example, tourist sites in France will reopen only later in the summer and in some cases will require pre-booking or have largely reduced capacity. Labor demand will therefore remain weak in tourism and take longer to recover.

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THE LONG VIEW: ASIA-PACIFIC

The Long and Winding Road

BY STEVE COCHRANE

In some places around the globe, the economic recovery is on a superhighway. China leads and is comfortably at cruising speed with steady industrial production and exports and improving retail sales. The U.S. economy has just merged onto that highway and is accelerating, fueled by its strong fiscal support and rapid vaccine rollout with improving services demand and quickening industrial production. Europe is still on the on-ramp, trying to accelerate as broader vaccination programs are finally allowing some opening of the domestic economy while the manufacturing side of the economy continues at a steady pace.

These trends are enough to power the global economy's continued recovery, but the road ahead for the Asia-Pacific region is a long and winding one, with many of its economies still seeking the on-ramp to the highway. The lackluster pace of vaccinations, even where COVID-19 was well contained, has allowed new variants to appear and requires heightened measures of social distancing with various, but always negative, economic consequences.

A few have lost their way. Economies as different as Indonesia and Japan contracted in the first quarter from last year's fourth quarter, putting them at risk of a double-dip recession if conditions remain weak through the current quarter. Others have taken a break, such as the Philippines and Thailand, whose economies have essentially stalled.

Conditions in India are highly uncertain, but at least the daily number of newly reported coronavirus cases has fallen from over 400,000 in early May to the latest read of just over 250,000 as of 20 May, according to the Johns Hopkins University Coronavirus Resource Center. But the road ahead is a long one, with perhaps more speed bumps. India's path has been the most uncertain with the sharpest first-round constriction globally back in mid-2020 followed by a blistering recovery in the fourth quarter. Then the second wave of COVID-19 hit and pushed the economy out of the cruising lane again. And yet, Taiwan, Hong Kong, South Korea and Vietnam, as well as Australia and New Zealand, are chasing China down the superhighway. Indeed, Taiwan has taken the lead with a blistering acceleration in the fast lane during this year's first quarter, led by strong electronics exports and healthy domestic demand.

But the red lights are flashing as many of these countries took their eyes off the rear-view mirror long enough to

miss the new variants of COVID-19 chasing after them. With the virus seemingly contained, vaccination programs have been low priorities in Taiwan and Vietnam, where small but rising clusters are now evident. South Korea also was slow to roll out vaccines but is now moving quickly. Japan is struggling to get vaccines rolled out beyond essential service providers and the extreme-aged population cohorts as new virus cases have surged nearly to a new peak.

Malaysia is at a new peak and is in the midst of a nationwide movement control order through at least June 7—another bump in the road following rather robust quarter-to-quarter growth in the first quarter. Similarly, Singapore has heightened its social-distancing measures with the arrival of new COVID-19 variants and has postponed for a second time a “green travel lane” with Hong Kong. This despite the quickest vaccination program in all of Asia. Indonesia and the Philippines have finally managed the number of new cases down from peak levels but still face large caseloads and slow vaccination programs. Despite the coronavirus threat throughout the region, the continued growth of global goods production and trade provides the strongest source of growth. The value of exports shipped by most APAC countries is already above its pre-COVID-19 levels and should continue to expand.

Supply chains linked to China are still taunted as demand remains strong for electronics, pharmaceuticals, industrial machinery, autos and basic commodities such as steel and iron ore. With prices rising broadly amid continued supply-chain and transport-system disruptions, commodity producers such as Indonesia and India, as well as manufacturers such as Vietnam and Taiwan, continue to see their goods-producing industries supported by export demand.

China's industrial production is humming, rising 6.8% in April using a two-year average growth rate, which is consistent with stable longer-term growth. China's domestic economy is moving a bit slower, as indicated by a 4.3% two-year average growth rate of retail sales. The production and new-orders components of China's official PMI remain well over the neutral 50 value and are above the index value for export orders as well, indicating continued optimism among China's export-oriented and domestic manufacturers, both of which depend upon supply chains that extend throughout the APAC region.

RATINGS ROUND-UP

Latest U.S. Changes Are Largely Credit Positive

BY STEVEN SHIELDS

The latest period was largely credit positive for U.S. corporations. Credit upgrades comprised five of the eight U.S. rating changes and accounted for virtually all the debt affected. Two of the five upgrades were issued to investment-grade firms while all three downgrades were made to speculative-grade companies.

Abbott Laboratories was given the largest upgrade in terms of debt affected in the week at approximately \$17.8 billion. Moody's Investors Service upgraded Abbott's and its wholly owned and guaranteed subsidiary, Abbott Ireland Financing DAC's senior unsecured rating to A2 from A3. The upgrade reflects Abbott's consistent execution across its portfolio for an extended period.

Abbott benefits from a highly diversified business model, the benefits of which were evident during the pandemic as the company was able to maintain stable earnings and cash flow. Moody's expects Abbott's revenues associated with COVID-19 testing will likely moderate as the pace of

vaccinations continues, but this reduction will be offset by a continued recovery in other parts of Abbott's business.

Moody's also upgraded Comstock Resources Inc.'s corporate family rating to B2 from B3 and its senior unsecured notes ratings to B3 from Caa1 to reflect Moody's expectation that positive free cash flow generation will lead to reduced debt and financial leverage in the next 12-18 months.

The most notable downgrade in the period was made to Basic Energy Services Inc. The oil services firm's senior secured notes were downgraded to C from Ca following the company's failure to make its interest payment due on April 15, 2021. The company entered into forbearance and other agreements with substantially all its creditors, which Moody's classifies as a default.

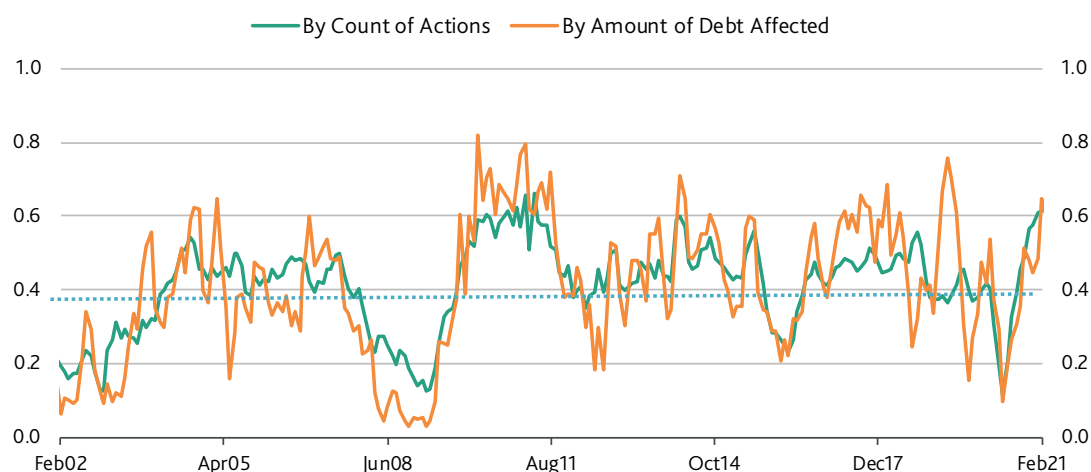
No new credit ratings were issued in Europe.

Credit Markets Review and Outlook

RATINGS ROUND-UP

FIGURE 1

Rating Changes - US Corporate & Financial Institutions: Favorable as % of Total Actions



* Trailing 3-month average

Source: Moody's

FIGURE 2

Rating Key

BCF	Bank Credit Facility Rating	MM	Money-Market
CFR	Corporate Family Rating	MTN	MTN Program Rating
CP	Commercial Paper Rating	Notes	Notes
FSR	Bank Financial Strength Rating	PDR	Probability of Default Rating
IFS	Insurance Financial Strength Rating	PS	Preferred Stock Rating
IR	Issuer Rating	SGLR	Speculative-Grade Liquidity Rating
JrSub	Junior Subordinated Rating	SLTD	Short- and Long-Term Deposit Rating
LGD	Loss Given Default Rating	SrSec	Senior Secured Rating
LTCF	Long-Term Corporate Family Rating	SrUnsec	Senior Unsecured Rating
LTD	Long-Term Deposit Rating	SrSub	Senior Subordinated
LTIR	Long-Term Issuer Rating	STD	Short-Term Deposit Rating

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FIGURE 3
Rating Changes: Corporate & Financial Institutions - US

Date	Company	Sector	Rating	Amount (\$ Million)	Up/ Down	Old LTD Rating	New LTD Rating	IG/S G
5/19/21	PREMIER DENTAL SERVICES, INC.	Industrial	SrSec/BCF/LTCFR/PDR		U	Caa1	B3	SG
5/20/21	ABBOTT LABORATORIES	Industrial	SrUnsec/CP	17,784	U	A3	A2	IG
5/20/21	COMSTOCK RESOURCES, INC.	Industrial	SrUnsec/LTCFR/PDR	2,817	U	Caa1	B3	SG
5/20/21	ARCH CAPITAL GROUP LTD.-ARCH MORTGAGE INSURANCE COMPANY	Financial	IFSR		U	A3	A2	IG
5/20/21	BASIC ENERGY SERVICES, INC.	Industrial	SrSec/LTCFR/PDR	300	D	Ca	C	SG
5/20/21	INDIGO NATURAL RESOURCES LLC	Industrial	SrUnsec/LTCFR/PDR	700	U	B3	B2	SG
5/21/21	BLACKSTONE CQP HOLDCO LP	Industrial	LTCFR/PDR		D	B1	B2	SG
5/21/21	GLOBAL IID PARENT, LLC-1A SMART START LLC	Industrial	LTCFR/PDR		D	B2	B3	SG

Source: Moody's

FIGURE 4
Rating Changes: Corporate & Financial Institutions - Europe

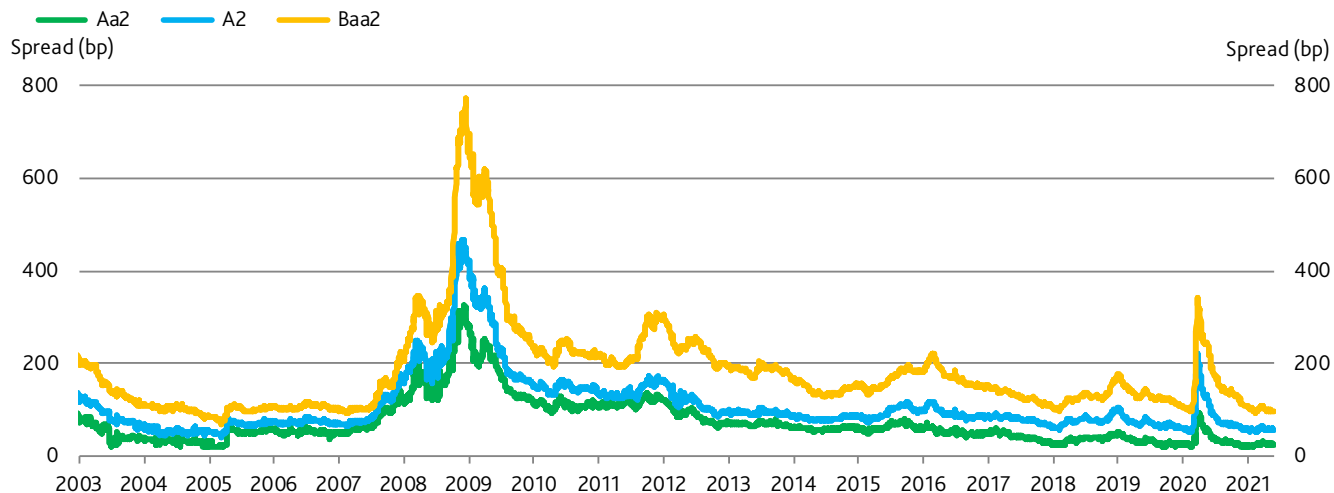
Date	Company	Sector	Rating	Amount (\$ Million)	Up/ Down	Old LTD Rating	New LTD Rating	Old STD Rating	IG/ SG	Country
NO NEW DATA AVAILABLE THIS WEEK										

Source: Moody's

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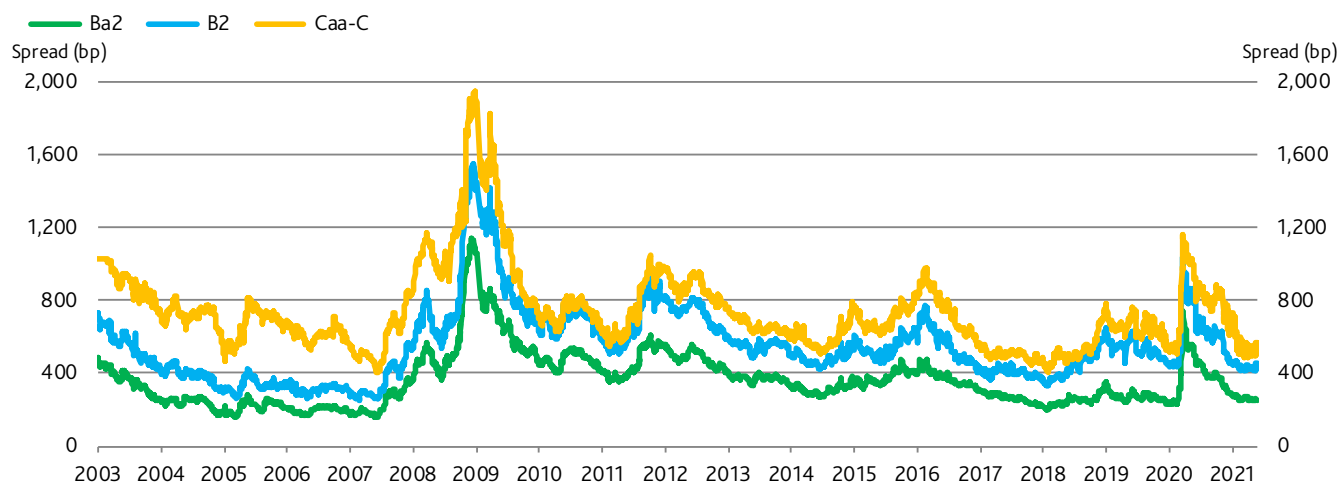
MARKET DATA

Figure 1: 5-Year Median Spreads-Global Data (High Grade)



Source: Moody's

Figure 2: 5-Year Median Spreads-Global Data (High Yield)



Source: Moody's

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CDS MOVERS

Figure 3. CDS Movers - US (May 19, 2021 – May 26, 2021)

CDS Implied Rating Rises	CDS Implied Ratings		
	May. 26	May. 19	Senior Ratings
Issuer			
Avery Dennison Corporation	Baa3	Ba2	Baa2
Commercial Metals Company	Ba2	B1	Ba2
Ford Motor Company	Ba3	B1	Ba2
American Express Company	A1	A2	A3
Capital One Bank (USA), N.A.	Aa3	A1	Baa1
CCO Holdings, LLC	Ba1	Ba2	B1
Carnival Corporation	B2	B3	B2
Illinois Tool Works Inc.	Aa3	A1	A2
International Paper Company	A2	A3	Baa2
Baxter International Inc.	Aa3	A1	Baa1

CDS Implied Rating Declines	CDS Implied Ratings		
	May. 26	May. 19	Senior Ratings
Issuer			
AT&T Inc.	Baa3	Baa2	Baa2
Morgan Stanley	Baa2	Baa1	A1
Verizon Communications Inc.	Baa2	Baa1	Baa1
Comcast Corporation	A3	A2	A3
Caterpillar Financial Services Corporation	A2	A1	A2
Occidental Petroleum Corporation	B2	B1	Ba2
NextEra Energy Capital Holdings, Inc.	Baa1	A3	Baa1
Altria Group Inc.	Baa2	Baa1	A3
United Airlines, Inc.	Caa1	B3	Ba3
Burlington Northern Santa Fe, LLC	A1	Aa3	A3

CDS Spread Increases	Senior Ratings	CDS Spreads		
		May. 26	May. 19	Spread Diff
Issuer				
Talen Energy Supply, LLC	B3	1,093	1,018	75
Nissan Motor Acceptance Company LLC	Baa3	152	116	36
Nordstrom, Inc.	Baa3	241	216	25
Scripps (E.W.) Company (The)	Caa1	271	252	19
United States Cellular Corporation	Ba1	143	127	15
Travel + Leisure Co.	B1	167	153	14
Kohl's Corporation	Baa2	139	126	13
Encompass Health Corp.	B1	189	180	9
AT&T Corp.	Baa2	93	87	7
Xerox Corporation	Ba1	225	219	6

CDS Spread Decreases	Senior Ratings	CDS Spreads		
		May. 26	May. 19	Spread Diff
Issuer				
Commercial Metals Company	Ba2	172	301	-129
Avery Dennison Corporation	Baa2	70	195	-124
Ford Motor Company	Ba2	207	257	-50
Carnival Corporation	B2	327	376	-49
Royal Caribbean Cruises Ltd.	B2	351	387	-36
Liberty Interactive LLC	B2	317	350	-33
Pitney Bowes Inc.	B1	460	489	-29
Murphy Oil Corporation	Ba3	326	355	-29
R.R. Donnelley & Sons Company	B3	485	514	-29
Ford Motor Credit Company LLC	Ba2	174	200	-26

Source: Moody's, CMA

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CDS Movers

Figure 4. CDS Movers - Europe (May 19, 2021 – May 26, 2021)

CDS Implied Rating Rises	CDS Implied Ratings		
	May. 26	May. 19	Senior Ratings
Issuer			
EWE AG	A3	Ba1	Baa1
Deutsche Bank AG	A3	Baa1	A3
Banco Santander S.A. (Spain)	A1	A2	A2
NatWest Markets Plc	A3	Baa1	A3
ENEL S.p.A.	Baa1	Baa2	Baa1
FCE Bank plc	Ba1	Ba2	Ba2
Veolia Environnement S.A.	A1	A2	Baa1
Vinci S.A.	A1	A2	A3
Gecina SA	A2	A3	A3
ASML Holding N.V.	Baa1	Baa2	A3

CDS Implied Rating Declines	CDS Implied Ratings		
	May. 26	May. 19	Senior Ratings
Issuer			
Electricite de France	Baa1	A3	A3
Landesbank Hessen-Thuringen GZ	A3	A2	Aa3
Atlantia S.p.A.	Ba2	Ba1	Ba3
Bank of Scotland plc	A3	A2	A1
National Bank of Greece S.A.	Ba3	Ba2	Caa1
Caixa Geral de Depositos, S.A.	Ba1	Baa3	Ba1
United Utilities Water Limited	Baa1	A3	A3
Alpha Services and Holdings S.A.	Caa1	B3	Caa2
Sappi Papier Holding GmbH	B3	B2	Ba2
Brisa Concessao Rodoviaria S.A.	Baa3	Baa2	Baa2

CDS Spread Increases	Senior Ratings	CDS Spreads		
		May. 26	May. 19	Spread Diff
Issuer				
Casino Guichard-Perrachon SA	Caa1	539	530	9
Boparan Finance plc	Caa1	852	842	9
Banco Comercial Portugues, S.A.	Ba1	178	176	3
National Bank of Greece S.A.	Caa1	191	189	3
BASF (SE)	A3	29	27	2
Schneider Electric SE	A3	33	31	2
Nordea Bank Abp	Aa3	25	24	1
Svenska Handelsbanken AB	Aa2	25	25	1
Landesbank Hessen-Thuringen GZ	Aa3	45	43	1
Vodafone Group Plc	Baa2	51	50	1

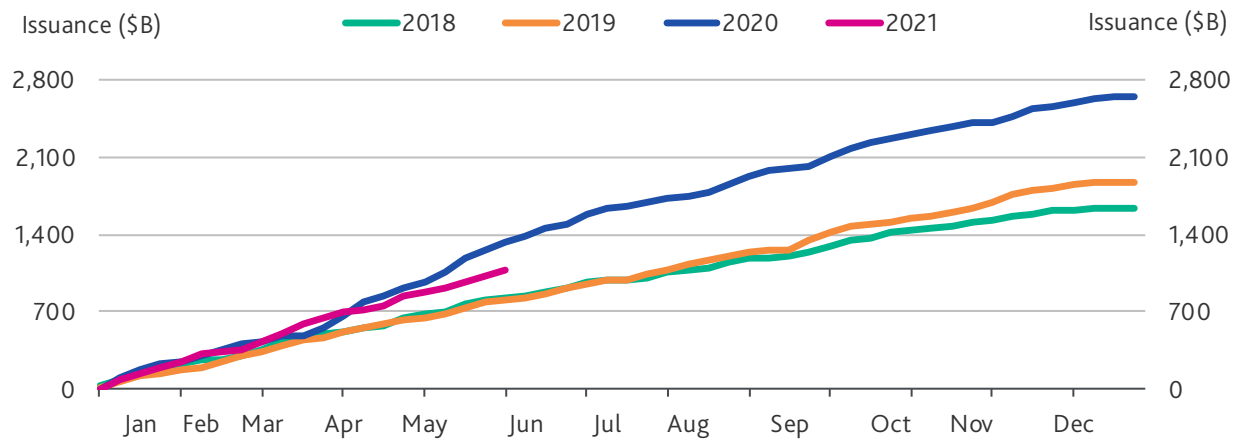
CDS Spread Decreases	Senior Ratings	CDS Spreads		
		May. 26	May. 19	Spread Diff
Issuer				
EWE AG	Baa1	48	110	-62
TUI AG	Caa1	751	786	-35
Premier Foods Finance plc	B3	217	243	-25
FCE Bank plc	Ba2	138	159	-21
Novafives S.A.S.	Caa2	819	839	-20
Piraeus Financial Holdings S.A.	Caa3	521	538	-17
Jaguar Land Rover Automotive Plc	B1	351	367	-16
Deutsche Lufthansa Aktiengesellschaft	Ba2	263	276	-13
CMA CGM S.A.	B3	369	382	-13
Ineos Group Holdings S.A.	B2	235	247	-12

Source: Moody's, CMA

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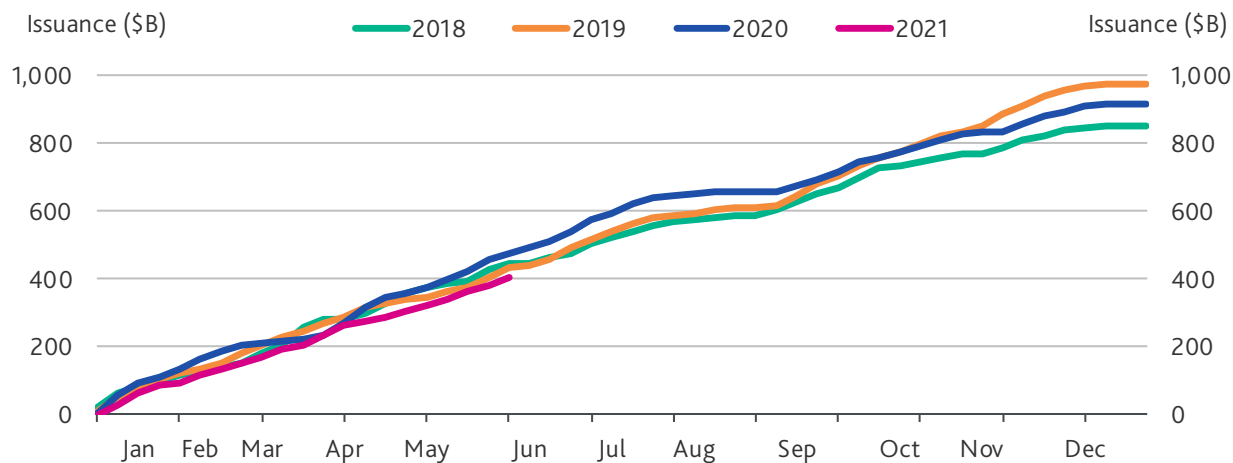
ISSUANCE

Figure 5. Market Cumulative Issuance - Corporate & Financial Institutions: USD Denominated



Source: Moody's / Dealogic

Figure 6. Market Cumulative Issuance - Corporate & Financial Institutions: Euro Denominated



Source: Moody's / Dealogic

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ISSUANCE

Figure 7. Issuance: Corporate & Financial Institutions

	USD Denominated		
	Investment-Grade	High-Yield	Total*
	Amount \$B	Amount \$B	Amount \$B
Weekly	31.141	17.067	49.302
Year-to-Date	736.138	315.339	1,076.233

	Euro Denominated		
	Investment-Grade	High-Yield	Total*
	Amount \$B	Amount \$B	Amount \$B
Weekly	16.512	3.476	20.062
Year-to-Date	319.202	72.109	402.017

* Difference represents issuance with pending ratings.

Source: Moody's/ Dealogic

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